

Plantation

Inventory Continues Moderating

Highlights

- MPOB's Feb 26 data showed palm oil inventory declining to 1.28m tonnes driven by lower production despite weaker exports.
- Malaysia's producers are expected to benefit from March's hike in Indonesia's export levy, with exports anticipated to pick up strongly in the coming months.
- Maintain MARKET WEIGHT. Sector picks: Hap Seng Plantations (BUY, Target: RM2.45) and KLK (BUY, Target: RM22.25).

Analysis

- **MPOB's Feb 26 data.** End-stocks fell 3.9% mom to 2.70m tonnes. However, the decline was lower than market expectations due to weaker exports and higher imports in Feb 26.
 - Production continued declining to 1.28m tonnes (-18.5% mom), which was in line with our production survey but slightly below market estimates, reflecting the seasonal low production period. Lower output was recorded across all regions, with Sabah posting the largest decline in production (-22% mom), mainly due to recent flooding in the state.
 - Exports fell sharply by 23% mom to 1.13m tonnes, in line with the cargo surveyors' estimate. Despite the expectations of pent-up demand from the festive season, Malaysia's exports were severely affected by stronger competition from Indonesian producers rushing to complete shipments ahead of the increase in the Indonesia's export levy in Mar 26. According to the Intertek survey, significantly lower export volumes were recorded in key markets such as India, Africa and the Middle East.
 - End-stocks fell to 2.70m tonnes vs 2.82m tonnes in Jan 26, following the drop in production, which offset the impact of weaker exports and higher imports.
- **Outlook.** Palm oil output typically begins to recover in March, marking the end of the low production period, and supported by higher number of working days. However, we expect any increase in the upcoming monthly production to be only marginal, following the shift in the peak production period last year. Meanwhile, Malaysia producers are expected to benefit from the increase in Indonesia's export levy from 10% to 12.5% effective 1 Mar 26, which could drive a rebound in Malaysia's exports market share. Early exports surveys for 1-10 Mar 26 indicate that export momentum has picked up significantly, rising by 38% to 45% mom during the period. As such, we expect inventory levels to continue moderating in the coming months.

MARKET WEIGHT (Maintained)

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Segmental Rating

Segment	Rating
Malaysia	MARKET WEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	HAPL MK	BUY	2.17	2.45
KL Kepong	KLK MK	BUY	19.54	22.25

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/Tonne)

	CPO Price (RM/tonne)
2021	4,408
2022	5,088
2023	3,810
2024	4,180
2025	4,306

Our Forecast:

2026F	4,250
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CPO Price:

MPOB @ 10 Mar 26	4,428
BMD 3 rd Month Contract	4,405

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 10 Mar 26 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (RM)	Price/ NAV ps (x)
Hap Seng Plantations	HAPL MK	BUY	2.17	2.45	12.9	Dec-26	13.9	11.1	10.2	4.4	5.9	1735.3	0.8
SD Guthrie	SDG MK	HOLD	5.73	5.90	3.0	Dec-26	15.8	18.4	18.9	3.1	10.6	39627.0	1.9
Genting Plantations	GENP MK	HOLD	5.08	5.22	2.8	Dec-26	12.9	13.2	12.7	3.8	6.1	4557.6	0.9
IOI Corporation	IOI MK	HOLD	3.95	4.30	8.9	Jun-26	16.1	17.3	17.3	3.0	12.7	24826.5	2.0
Kuala Lumpur Kepong	KLK MK	BUY	19.54	22.25	13.9	Sep-26	26.4	16.3	16.2	2.7	5.8	21810.5	1.6
Kim Loong Resources	KIML MK	HOLD	2.42	2.25	(7.0)	Jan-27	14.6	14.2	15.1	6.9	18.5	2380.1	2.6
Sarawak Oil Palms	SOP MK	HOLD	4.21	3.15	(25.2)	Dec-26	8.4	8.4	8.4	2.2	12.2	3961.6	0.9

Source: Bloomberg, UOB Kay Hian

MPOB's Feb 26 Statistics

(m tonne)	Feb 25	Jan 26	Feb 26	mom % chg	yoy % chg	2M26	yoy % chg
CPO Production	1.19	1.58	1.28	(18.5)	8.1	2.86	17.9
Palm Oil Domestic Use	0.33	0.39	0.34	(11.9)	4.7	0.74	20.4
Palm Oil Exports	1.00	1.45	1.13	(22.5)	13.2	2.58	18.3
Oleochemical	0.20	0.22	0.21	(7.5)	3.5	0.43	(0.6)
Biodiesel	0.04	0.02	0.02	(14.9)	(62.0)	0.03	(54.2)
Palm Oil Imports	0.07	0.03	0.08	136.0	14.2	0.11	(30.1)
Palm Oil Stocks	1.51	2.82	2.70	(3.9)	79.1	2.70	58.3
CPO Price (RM/tonne)	4,672.5	4042.5	4077.5	0.9	(12.7)	4048.0	(14.2)

Source: MPOB, UOB Kay Hian

Feb 26 CPO Production By Region And State

(m tonne)	Feb 25	Jan 26	Feb 26	mom % chg	yoy % chg	2M26	yoy % chg
Johor	0.19	0.24	0.20	(17.8)	3.5	0.44	12.1
Pahang	0.17	0.25	0.21	(16.3)	22.8	0.45	29.1
Perak	0.14	0.15	0.13	(13.8)	(4.6)	0.28	9.2
Negeri Sembilan	0.04	0.05	0.04	(19.3)	7.2	0.10	22.8
Selangor	0.04	0.04	0.04	(10.9)	(10.2)	0.08	2.5
Terengganu	0.02	0.03	0.03	(17.4)	43.0	0.06	51.3
Kelantan	0.01	0.03	0.02	(15.3)	77.6	0.05	67.5
Kedah	0.02	0.02	0.02	(15.4)	(20.9)	0.03	(3.3)
Other States	0.01	0.02	0.01	(18.9)	7.9	0.03	29.0
Pen Malaysia	0.64	0.83	0.70	(16.3)	8.3	1.53	18.8
Sabah	0.26	0.40	0.31	(22.6)	19.4	0.70	27.0
Sarawak	0.29	0.35	0.28	(19.3)	(2.3)	0.63	7.4
East Malaysia	0.55	0.75	0.59	(21.1)	7.9	1.33	16.9

Source: MPOB, UOB Kay Hian

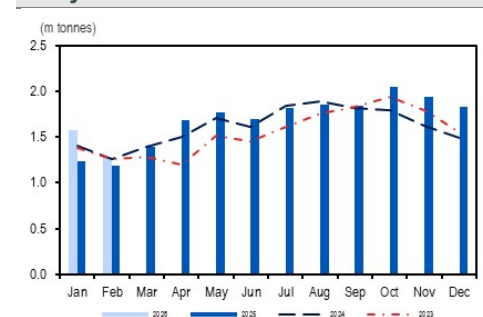
Valuation/Recommendation

- **Maintain MARKET WEIGHT.** Following the escalation in the Middle East conflicts, CPO prices have experienced heightened volatility with third month futures prices hitting as high as RM4,700/tonne, corresponding to the jump in Brent and SBO prices. Barring a swift conflict de-escalation, spot prices could trade at a higher range of RM4,300-RM4,500/tonne in the immediate term (2M26: RM4,050), which would support sector earnings during the low production season in 1Q26. At the same time, we believe some planters may choose to lock in more forward sales with near-term futures prices settling above RM4,500/tonne. On the other hand, we see two mixed implications from the sudden surge in crude oil prices, should oil continue to trade at elevated levels : a) the potential revival of Indonesia's B50 biodiesel mandate, with government officials now reconsidering its implementation in 2H26; and b) potentially higher production costs given the increase in fertiliser prices linked to fuel prices. Having said that, planters under our coverage have largely procured fertiliser requirements for the next 6-12 months and should thus remain insulated in the short run by energy cost inflation. All in, we maintain our neutral view on the sector and CPO forecast of RM4,250/tonne for 2026 and RM4,300/tonne for 2027-28. Potential sector catalysts in the near term include revisions in US and Indonesia's biofuel policies driving incremental vegoil demand.

Sector Catalyst/Risk

- Weaker-than-expected industry output driving tighter inventories and higher CPO prices.
- Acceleration/resumption of regional biofuel policy expansion plans driving incremental consumption demand.
- Improved downstream business outlook for vertically integrated planters.

Malaysia Palm Oil Production



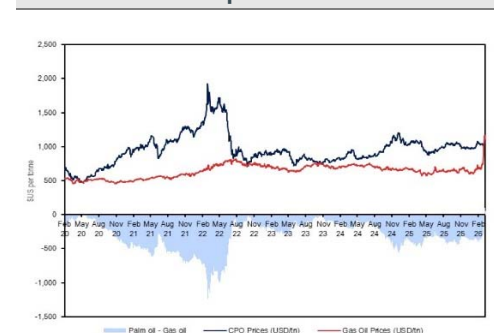
Source: MPOB, UOB Kay Hian

Malaysia Palm Oil Stocks



Source: MPOB, UOB Kay Hian

Palm Oil-Gas Oil Spread



Source: Bloomberg, UOB Kay Hian

Fertiliser Prices



Source: Bloomberg, UOB Kay Hian

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